Columbia Gas of Kentucky
A NiSource Company

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Lexington, KY 40512
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PUBLIC SERVICE COMMISSION

June 1, 2004

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

Dear Ms. O'Donnell:

Pursuant to the Commission's Orders in Case No. 1999-165, Columbia Gas of Kentucky, Inc., ("Columbia") hereby submits its annual report on its Customer CHOICE^{SM} program. An original and six copies are enclosed.

If you have any questions, please give me a call at (859) 288-0242.

Sincerely,

Judy Cooper

Judy M. Cooper
Director, Regulatory Policy

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COMMISSION

Customer Choice[SM]

Make a Choice. Take Control.

Columbia Gas of Kentucky, Inc.
Customer Choice[SM] Program
Annual Report

June 1, 2004

Customer Choice

Make a Choice. Take Control.

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PUBLIC SERVICE COMMISSION

Columbia Gas of Kentucky, Inc.
Customer Choice^{SM} Program Annual Report
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Introduction

Columbia Gas of Kentucky's ("Columbia") application requesting approval of its Customer Choice Program described an annual report to be filed with the Kentucky Public Service Commission ("Commission"). This fourth annual report will summarize the Program and its progress over the last year. In addition, the report will benchmark the progress of the Program so far against the six stated goals of the Program as listed in Columbia's initial Choice Application.

Columbia identified six primary goals that it believed would be critical to the success of the Program. These goals were used as a guide when developing the details of the Program with the Customer Choice Collaborative and stated clearly in the application to the Commission. The members of the Collaborative are the Office of the Attorney General of the Commonwealth of Kentucky, the Lexington-Fayette Urban County Government, and the Community Action Council for Fayette, Bourbon, Harrison and Nicholas Counties. In addition, FSG Energy Services, a marketing subsidiary of Wisconsin Public Service Resources Corporation, provided valuable input as well. The stated goals are listed below along with a summary of the progress to date on each.

- The program must provide an opportunity for customers to save money on their gas bills.

At the time of the filing of the first Customer Choice annual report Columbia was extremely pleased with the level of customer savings through the first six months of the Program. Customers had saved a total of $1,458,148 on gas costs from November 2000 through the first six months. To put this into perspective, the typical residential customer using an average of 8 MCF per month throughout the year paid $59.29 per month for natural gas from Columbia. This same customer would have saved more than $71 over a full year if enrolled under the 10% off of Columbia's gas cost offer accepted by most customers. In effect, this customer would have saved enough through the Customer Choice Program to have received more than one month's gas free.

Tight supplies causing higher wholesale natural gas prices combined with record-breaking cold temperatures in December 2001 focused customers on their gas bills, particularly the gas cost portion of the bill. Combined with easy to understand, no-risk offers from marketers such as 10% off of Columbia's gas cost prompted customer enrollments into Choice at a pace far exceeding everyone's expectations. Enrollment peaked in January 2002 at 52,639 customers or nearly 38% of eligible customers. As of May 2003, the latest numbers available, 45,374 customers representing approximately 32% of eligible customers had enrolled with a marketer. This is a decline of 7,265 customers, or almost 14% of participating customers from January 2002. As was reported last year, customer enrollments have continued to decline.

As was the case last year, wholesale prices have continued their volatility. At the same time, marketers have offered fixed price rates to new customers which were generally near to Columbia's but re-enrollments were offered at different rates. Customers had a choice of rates from two or three marketers throughout the year. The trend toward net customer savings begun in April 2003 reversed again in December 2003. For numerous customers, the fixed price rate they paid exceeded Columbia's gas cost. As a result, Choice customers have now paid a total of

$3,016,726 more in gas costs than they would have had they been a sales customer of Columbia. This is a grand total from the beginning of the program through March 2004.

- The program should provide marketers with as much flexibility as is possible to provide customers savings by allowing them to serve customers using their own interstate pipeline capacity.

Once a marketer is deemed credit-worthy to participate in the Choice Program, Columbia and the marketer execute an aggregation agreement. According to the terms of these aggregation agreements, marketers agree to contract for firm, primary point delivery entitlements on the interstate pipeline. Under the aggregation agreement Columbia has the right and the obligation to contact marketers and ask that they verify their contracts for firm pipeline entitlements.

In early January 2002, Columbia sent letters to the two marketers serving Choice volumes with the marketers' own capacity requesting verification of their firm pipeline contracts. It became apparent that those marketers did not obtain the required firm, primary point delivery entitlements on the interstate pipeline.

The lack of the marketers to provide verification prompted Columbia to seek to amend its tariff for Small Volume Aggregation Service. In Docket No. 2002-00117, Columbia requested that the Commission eliminate the "grandfathering" of Phase I volumes and permit Columbia to require marketers to take mandatory assignment of Columbia's capacity for all Choice volumes. One marketer protested Columbia's proposal and expressed the necessity for balance between Columbia's needs and those of Choice suppliers to capture savings for end-users. Columbia and the marketer entered into a Settlement that was approved by the Commission on January 13, 2003. Marketers now take assignment of minimum levels of Columbia's storage and transportation capacity and undergo a prospective capacity audit applicable to the winter season. If the audit determines that the marketer does not have the required firm pipeline contracts, Columbia can assign capacity to meet the marketer's capacity shortfall and the marketer is required to accept the assignment.

- The program should be revenue neutral for Columbia, and must allow Columbia to recover its stranded costs and incremental program expenses.

Columbia believes that this goal is as appropriate today for the pilot program the same as it was when the program was designed.

- The recovery of stranded costs must be as transparent to the customer as possible to permit the customer to make a clear and understandable choice between the marketer's offer and Columbia's sales rate.

Columbia continues to believe that this goal is as appropriate today as it was when the Program was designed and that this goal has been accomplished through the model approved by the Commission.

- Customers who choose to continue to purchase their gas supply using Columbia's traditional sales service should not incur any additional charges because of the implementation of the Customer CHOICE Program.

This goal also continues to be as appropriate today as it was when the Program was designed.

- Customer education is critical to the success of the program and customers must have an opportunity to learn about the program for a period of time before they begin to receive offers from marketers.

This goal was also accomplished by the Commission allowing for a customer education period prior to when marketers would be allowed to contact customers and enroll them into the Program.

Customer Choice
Make a Choice. Take Control.

Residential & Commercial Customer Participation

As of May 15, 2004

Customer Choice

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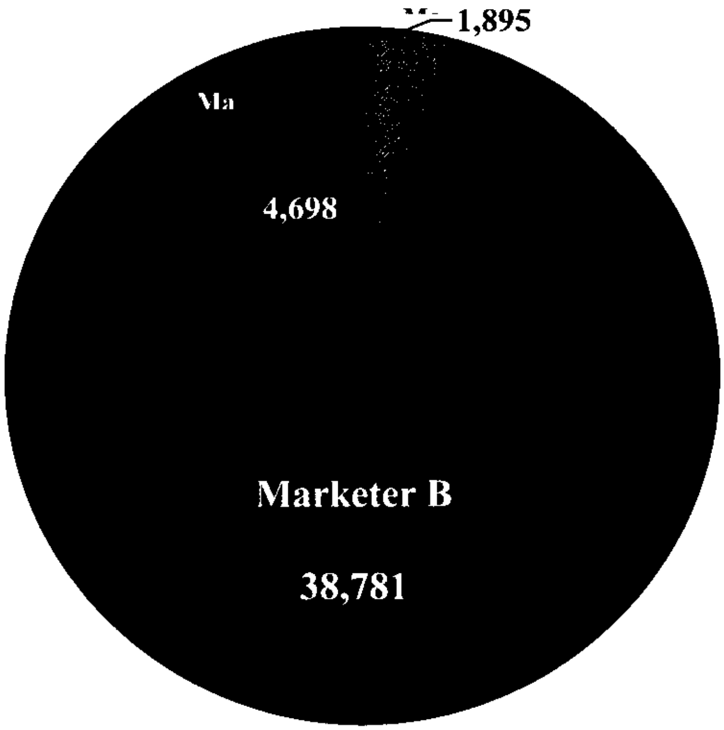
Marketer Enrollment



Note: In an effort to avoid undue influence in a competitive market, marketer data for this report will not be identified by specific marketer name.

As of May 15, 2004

Customer Choice
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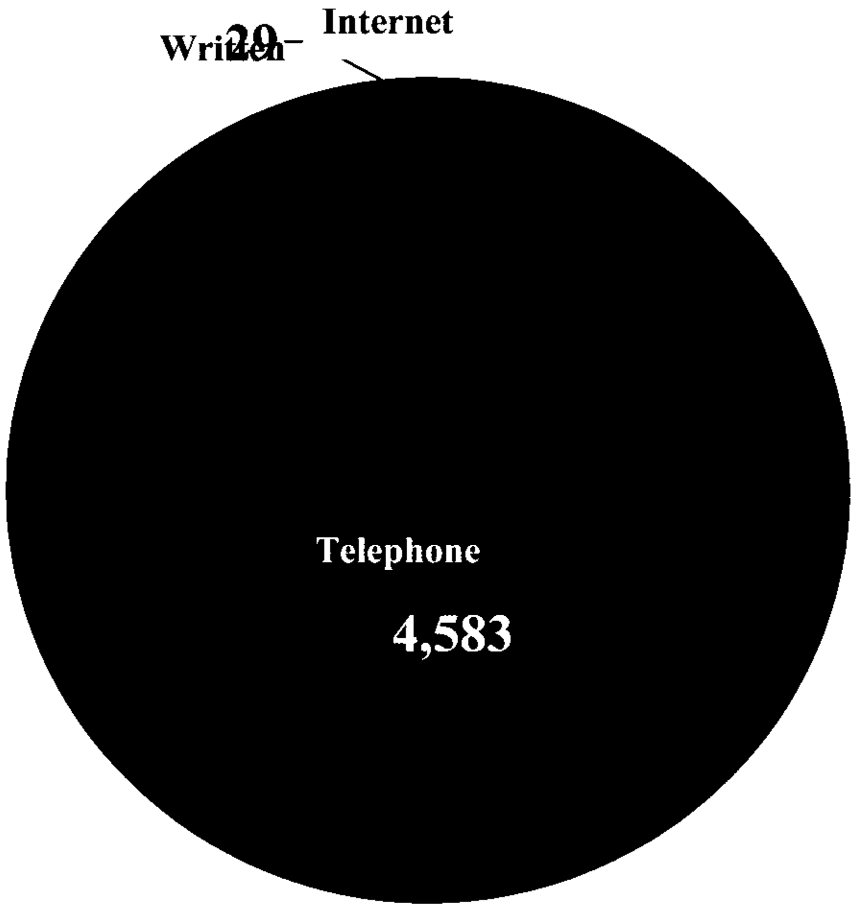
Methods of Enrollment



As of May 15, 2004

Customer Choice
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Total Volumes Purchased From Marketers By Participating Customers (Mcf)

Total = 6,401,198 Mcf Annually

As of May 30, 2004

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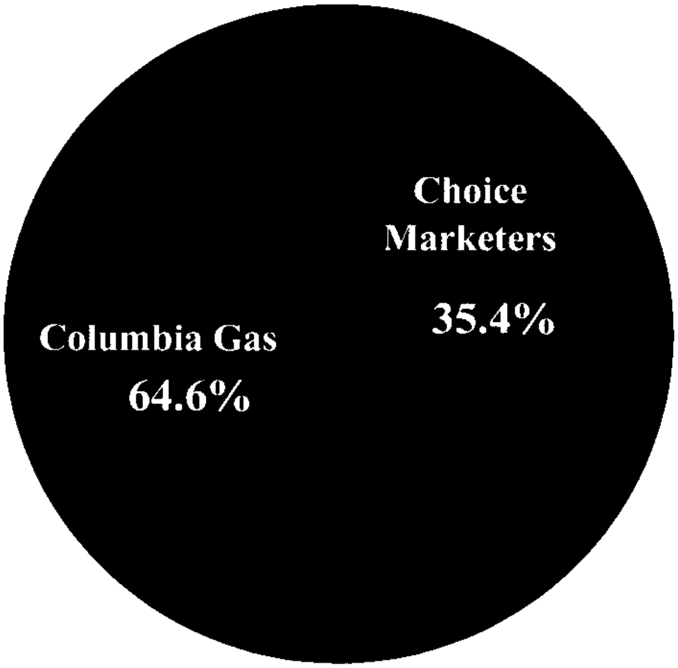
Percentage of Customer Participation By Volume



35.4 percent of total eligible throughput is being supplied by a Choice marketer.

As of May 15, 2004

Certified Marketers

Community Action Council Buyers Club, Inc.
Judy Dennis
P.O. Box 11610
Lexington, KY 40576
800-244-2275

Interstate Gas Supply, Inc.
Dave Burig, Customer Choice Program Director
5020 Bradenton Avenue
Dublin, Ohio 43017
800-280-4474

MxEnergy.com, Inc.
Anita Blake
20 Summer Street
Stamford, Connecticut 06901
800-785-4373

Rates Charged by Marketers

The following marketer rates are not identified by marketer name in order to avoid undue influence in a competitive market.

Marketer	Rates as of 5/1/03
A	$7.70 per Mcf $9.90 per Mcf
B	$7.89 per Mcf $8.49 per Mcf $8.29 per Mcf $7.99 per Mcf $5.39 per Mcf $7.49 per Mcf $8.9466 per Mcf $7.3593 per Mcf
C	$6.999 per Mcf $5.39 per Mcf $5.05 per Mcf $8.45 per Mcf $6.09 per Mcf $7.99 per Mcf $7.49 per Mcf $6.99 per Mcf $5.99 per Mcf $5.89 per Mcf $9.99 per Mcf $5.49 per Mcf $8.99 per Mcf

Customer Education

Research conducted in late 2000 indicated strong awareness of the Customer Choice Program among Columbia Gas of Kentucky customers. As a result, the focus of the company's customer education efforts during 2001 and 2002 shifted to keeping customers informed of specific elements of the Choice Program at their request.

Web Site
Columbia's Web site – www.columbiagasky.com – continues to provide customers with an overview of the Choice Program, answers to frequently asked questions, and contact information, including toll-free phone numbers and Web site links, for participating marketers. A convenient Ask Us form is provided for those customers who have more specific questions regarding the Customer Choice Program.

Customers can use the Columbia Gas of Kentucky Web site to request a speaker to address their organization by completing and submitting an online speaker request form.

Community Presentations
As knowledge of the Customer Choice Program increased, the number of requests for speakers on the subject declined. Columbia representatives remain available to make presentations, answer questions and providing information about the Choice Program. Columbia continues to provide this service for organizations who request it.

Media Requests
Requests for interviews by print and electronic media were numerous following the announcement of the Customer Choice Program, but as customers became more educated about the program and its newness wore off, media coverage has decreased.

Customer Contact Center Training
Columbia Customer Service Specialists in the Lexington Customer Contact Center are updated regularly on the Customer Choice Program. The Customer Contact Center received 5,064 calls from May 2003 through April 2004 from customers seeking information about the Customer Choice Program.

Stranded Costs

The amount of stranded costs incurred under the program to date; and the amount of revenue, to date, realized from opportunities developed to off-set stranded costs under the program.

Transition Capacity Costs	$25,763,959
Information Technology Costs	$94,208
Education Costs	$232,485
Total	**$26,090,652**

Revenue to Off-Set Stranded Costs

Revenues Generated to Recover Stranded Costs, to date:

Off-System Sales	$8,272,517
Balancing Charge	$2,427,343
Marketer Contribution	$1,085,425
Capacity Assignment	$17,281,857
Total	**$29,067,141**